Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

1 Principal activities and basis of presentation

(a) Principal activities

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading integrated service provider to the telecommunications industry in the People's Republic of China (the "PRC"). Its principal activities comprise provision of a full range of telecommunications support services to the telecommunications operators in the PRC, including (i) telecommunications infrastructure design, construction and supervision and management; (ii) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications service and products); and (iii) a variety of other services including applications, content and others.

(b) Basis of presentation

Pursuant to the Equity Transfer Agreements entered into by the Company and China Telecommunications Corporation and its subsidiaries ("CTC Group") on 26 May 2009, the Company acquired 95.945% and 51% equity interests in Shanghai Tongmao Import & Export Co. Ltd ("Tongmao") and Guoxin Lucent Technologies Network Technologies Co., Ltd ("Guoxin Lucent") (collectively the "Target Interests") respectively for a total purchase price of RMB98.05 million.

Since the Group and the Target Interests are under common control of CTC, the Target Interests have been accounted for as a combination of entities under common control in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Interests have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Interests have been restated to include the results of operations and assets and liabilities of the Target Interests on a combined basis. The considerations paid by the Company for the acquisitions of the Target Interests were accounted for as an equity transaction in the consolidated statement of changes in equity.

(Expressed in Renminbi)

1 Principal activities and basis of presentation (continued)

(b) Basis of presentation (continued)

The results of operations for the six months ended 30 June 2008, the financial position as at 31 December 2008 and the cash flow effect for the six months ended 30 June 2008 previously reported by the Group have been restated to include the results of the Target Interests as set out below:

	The Group (as previously reported) RMB'000	Target Interests RMB'000	Combined adjustments RMB'000	Combined RMB'000
Results of operations for the six months ended 30 June 2008				
Revenues	13,628,673	259,074	(21,182)	13,866,565
Gross profit	2,145,336	29,439	(1,080)	2,173,695
Profit/(loss) for the period	574,325	(901)	—	573,424
Basic earnings per share (in RMB)	0.101	—	—	0.102
Financial position as at 31 December 2008				
Total assets	27,459,220	395,293	(17,711)	27,836,802
Total liabilities	15,346,526	264,397	(17,711)	15,593,212
Total equity	12,112,694	130,896	—	12,243,590
Cash flow effect for the six months ended 30 June 2008				
Net cash used in operating activities	(901,885)	(96,674)	—	(998,559)
Net cash generated from/(used in) investing activities	333,628	(873)	—	332,755
Net cash generated from financing activities	1,351,550	38,410	—	1,389,960

For the periods presented, all significant balances and transactions between the Group and the Target Interests have been eliminated on combination.

Notes to the Unaudited Interim Financial Report
(continued)

(Expressed in Renminbi)

2 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting,* issued by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 1 September 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policies changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). IFRSs include all applicable individual IFRS, IASs and related interpretations.

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company. The interim financial report has also been reviewed by the Company's international auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 6.

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. Annual financial statements for the year ended 31 December 2008 are available from the Company's registered office. The Company's international auditors have expressed an unqualified opinion on those financial statements in their report dated 2 April 2009.

(Expressed in Renminbi)

3 Changes in accounting policies

The IASB has issued one new IFRS, a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, *Operating segments*
- IAS 1 (revised 2007), *Presentation of financial statements*
- Revised IAS 23, *Borrowing costs*
- Amendments to IAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendment to IFRS 2, *Share-based payment — vesting conditions and cancellations*
- Amendments to IFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*
- Improvements to IFRSs (2008)

The amendments to IFRS 2, IAS 23 and improvements to IFRSs (2008) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim report is as follows:

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. As the Group principally has one reportable segment, such change has no material impact to the presentation of this interim financial information. For additional information about segment reporting, please refer to note 4.

(Expressed in Renminbi)

3 Changes in accounting policies (continued)

- The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Group's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividends. In such cases, in addition to recognising dividend income in profit or loss, the Group would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

4 Segment reporting

The Group principally has one reportable segment, which is the provision of integrated telecommunications support services in the PRC. Therefore, no additional reportable segment has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 5.

5 Revenues

Revenues are derived from the provision of integrated telecommunications support services and net of sales taxes. The Group's revenues by business nature can be summarised as follows:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000 (restated – note 1(b))
Revenue from telecommunications infrastructure services	**8,770,533**	5,895,007
Revenue from business process outsourcing services	**7,764,049**	6,281,531
Revenue from applications, content and others	**1,728,280**	1,690,027
	18,262,862	13,866,565

The Group's major customers are telecommunications operators which include CTC Group and China Mobile Communications Corporation and its subsidiaries ("CM Group"), both with revenue exceeding 10% of the Group's total revenue. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the six months ended 30 June 2009 amount to RMB7,742 million and RMB3,068 million respectively (six months ended 30 June 2008: RMB5,730 million and RMB1,936 million respectively), being 42.4% and 16.8% of the Group's total revenue respectively (six months ended 30 June 2008: 41.3% and 14.0% respectively). In addition, the revenue derived from areas outside Mainland China for the six months ended 30 June 2009 amounts to RMB 595 million (six months ended 30 June 2008: RMB270 million).

Notes to the Unaudited Interim Financial Report
(continued)

(Expressed in Renminbi)

6 Cost of revenues

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Depreciation and amortisation	168,534	169,941
Direct personnel costs	3,202,816	2,366,834
Operating lease charges	264,242	171,883
Purchase of materials and telecommunications products	6,015,321	5,002,863
Subcontracting charges	4,235,494	2,908,350
Others	1,522,729	1,072,999
	15,409,136	11,692,870

7 Other operating income

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Dividend income from unlisted securities	1,440	—
Government grants	49,180	51,319
Gain on disposal of investments	—	7,143
Gain on disposal of property, plant and equipment	3,282	104
Penalty income	953	799
Management fee income	96,041	89,832
Write-off of non-payable liabilities	437	7,835
Others	15,217	13,841
	166,550	170,873

(Expressed in Renminbi)

8 Net financing expense

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Interest income	30,515	49,701
Net foreign exchange (loss)/gain	(5,719)	2,591
Net change in fair value of financial assets at fair value through profit or loss	—	(103)
Change in fair value of derivative financial instruments	—	(4,733)
Interest on bank advances and other borrowings wholly repayable within five years and others	(47,888)	(85,646)
	(23,092)	(38,190)

For the periods ended 30 June 2009 and 2008, no borrowing costs were capitalised in relation to construction in progress.

9 Profit before tax

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
(a) Staff costs:		
Salaries, wages and other benefits	3,950,950	2,936,006
Contributions to defined contribution retirement schemes	378,352	281,159
	4,329,302	3,217,165
(b) Other items:		
Amortisation	18,321	18,436
Cost of inventories	6,015,321	5,002,863
Depreciation	275,709	259,623
Inventory write-down and losses, net of reversals	3,754	8,682
Impairment losses on accounts and other receivables	4,433	14,003
Reversal of impairment losses on accounts and other receivables	(2,632)	(1,817)
Operating lease charges	324,401	227,141
Research and development costs	68,910	8,338
Share of associates' taxation	137	230

(Expressed in Renminbi)

10 Income tax

(a) Income tax in the consolidated income statement represents:

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Current tax		
PRC enterprise income tax	**231,478**	226,932
Deferred tax		
Origination and reversal of temporary differences	**(2,475)**	(19,720)
Total income tax	**229,003**	207,212

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Profit before tax	**989,381**	780,636
Expected PRC enterprise income tax expense at a statutory tax rate of 25%	**247,345**	195,159
Differential tax rates on subsidiaries' profits (note (i))	**(52,644)**	(16,414)
Non-deductible expenses (note (ii))	**13,975**	15,058
Non-taxable income	**(2,805)**	(8,183)
Tax losses not recognised	**19,376**	28,851
Effect on opening deferred tax resulting from a change in preferential tax qualification (note (iii))	**3,756**	(7,259)
Income tax	**229,003**	207,212

(Expressed in Renminbi)

10 Income tax (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (continued)

Notes:

(i) The provision for PRC income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2009 and the six months ended 30 June 2008, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% or 20%.

(ii) The amounts include personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose.

(iii) The amount in the six months ended 30 June 2009 and 2008 represented the tax effect on opening balances of deferred tax assets arising from the change in the enterprise income tax rate applicable to certain subsidiaries due to changes in preferential tax qualification during the periods. The deferred tax assets were remeasured for the change in applicable tax rates.

11 Other comprehensive income/(expenses)

Available-for-sale securities

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Changes in fair value recognised during the period	**26,786**	(40,007)
Net deferred tax (charged)/credited to other comprehensive income	**(5,830)**	10,002
Net movement in the fair value reserve during the period recognised in other comprehensive income/(expenses)	**20,956**	(30,005)

(Expressed in Renminbi)

12 Dividends

(a) Interim dividend

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB nil).

(b) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved during the period

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2008 and 2007, declared during the following interim period of RMB0.0913 per share (six months ended 30 June 2008: RMB0.0682 per share)	**526,955**	393,629

No final dividend was paid during the six months ended 30 June 2009 and six months ended 30 June 2008.

13 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 30 June 2009 of RMB758 million (six months ended 30 June 2008: RMB569 million) and the weighted average number of shares in issue during the six months ended 30 June 2009 of 5,771,682 thousand shares (six months ended 30 June 2008: 5,592,179 thousand shares).

The weighted average number of shares in issue is set out below:

	Six months ended 30 June	
	2009	2008
	Thousand shares	Thousand shares
Ordinary share issued at 1 January	**5,771,682**	5,444,986
Effect of shares issued in April 2008 (See note 19)	**—**	147,193
	5,771,682	5,592,179

There was no difference between basic and diluted earnings per share as there were no dilutive potential shares outstanding for the periods presented.

(Expressed in Renminbi)

14 Property, plant and equipment, net

During the six months ended 30 June 2009, additions of property, plant and equipment (including direct purchase, transfer from construction in progress and investment properties) of the Group amounted to RMB339 million (six months ended 30 June 2008: RMB492 million (restated)). Items of property, plant and equipment with net book value totalling RMB7 million were disposed of during the six months ended 30 June 2009 (six months ended 30 June 2008: RMB8 million).

15 Accounts and bills receivable, net

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Bills receivable	44,358	146,577
Unbilled revenue for contract work	3,662,715	2,620,511
Trade receivables	8,240,620	6,864,788
	11,947,693	9,631,876
Less: impairment losses	(301,735)	(301,104)
	11,645,958	9,330,772

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB5,882 million as at 30 June 2009 (31 December 2008: RMB5,332 million (restated)). The amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

(b) In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of one to three months are available for certain customers with well-established trading and payment records.

(Expressed in Renminbi)

15 Accounts and bills receivable, net (continued)

(c) The ageing analysis of accounts and bills receivable (net of impairment losses) is as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Current	**6,562,690**	4,364,365
Within 1 year	**4,428,741**	4,320,944
After 1 year but less than 2 years	**460,921**	459,572
After 2 years but less than 3 years	**113,078**	119,212
After 3 years	**80,528**	66,679
Amount past due	**5,083,268**	4,966,407
	11,645,958	9,330,772

(d) Impairment of accounts and bills receivable

Impairment losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts and bills receivable directly.

The movement in allowance for doubtful debts during the period, including both specific and collective loss components, is as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
At 1 January	**301,104**	73,514
Acquisition of subsidiaries (note (i))	**—**	202,334
Impairment loss recognised	**3,574**	40,647
Reversal of impairment loss previously recognised	**(2,590)**	(8,089)
Uncollectible amounts written off	**(353)**	(7,302)
At 30 June/31 December	**301,735**	301,104

15 Accounts and bills receivable, net (continued)

(d) Impairment of accounts and bills receivable (continued)

(i) Included in impairment losses are impairment loss of RMB202.3 million recognised before the acquisition date by China International Telecommunications Construction Corporation and its subsidiaries ("CITCC") which were acquired by the Group in 2008.

At 30 June 2009, the Group's accounts and bills receivable of RMB256.1 million were individually determined to be impaired (31 December 2008: RMB256.9 million). The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB211.1 million were recognised (31 December 2008: RMB213.2 million including acquired from CITCC). The Group does not hold any collateral over these balances.

(e) Accounts and bills receivable that are not impaired

The ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Neither past due nor impaired	6,562,690	4,364,365
Within 1 year	4,391,723	4,319,752
After 1 year but less than 2 years	380,757	283,800
After 2 years but less than 3 years	70,435	77,571
After 3 years	25,759	18,442
At 30 June/31 December	11,431,364	9,063,930

Receivables that were neither past due nor impaired relate to major telecommunications service providers for whom there was no history of default.

Receivables that were past due but not impaired relate to major telecommunications service providers and a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(Expressed in Renminbi)

16 Cash and cash equivalents

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Cash at bank and in hand	5,406,645	7,143,953
Highly liquid investments	70,000	245,000
Deposits with banks and other financial institutions	1,606,230	1,149,189
Cash and cash equivalents	7,082,875	8,538,142

17 Interest-bearing borrowings

The Group's short-term borrowings are comprised of:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
RMB denominated		
Borrowings from banks		
— collateralised	—	15,212
— unsecured	850,000	282,488
Loans from ultimate holding company		
— unsecured	300,000	1,000,000
Loans from fellow subsidiaries		
— unsecured	566,280	645,780
Loans from third parties		
— unsecured	18,500	39,000
Current portion of long-term borrowings from banks		
— collateralised	—	940
United States dollar denominated		
Borrowings from banks		
— collateralised	—	10,006
— unsecured	82,645	—
	1,817,425	1,993,426

(Expressed in Renminbi)

17 Interest-bearing borrowings (continued)

The Group's short-term borrowings bearing fixed interest rate per annum are as follows:

	At 30 June 2009	At 31 December 2008 (restated – note 1(b))
RMB denominated		
Borrowings from banks		
— collateralised	—	3.30%
— unsecured	2.30% – 3.62%	6.03% – 7.47%
Loans from ultimate holding company		
— unsecured	3.89%	4.03%
Loans from fellow subsidiaries		
— unsecured	2.39% – 4.82%	3.00% – 5.26%
Loans from third parties		
— unsecured	4.37% – 5.83%	5.83% – 5.91%
United States dollar denominated		
Borrowings from banks		
— collateralised	—	2.25%
— unsecured	2.36% – 3.61%	—

As at 30 June 2009, no borrowings from banks were subject to financial covenants. The loan from ultimate holding company as at 30 June 2009 is unsecured and repayable on 9 December 2009.

(Expressed in Renminbi)

18 Accounts and bills payable

Accounts and bills payable comprise:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Accounts payable	**7,251,809**	6,190,058
Bills payable	**1,337,670**	1,556,729
	8,589,479	7,746,787

The ageing analysis of accounts and bills payable is as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Within 1 year	**7,951,355**	7,356,165
After 1 year but less than 2 years	**512,651**	267,125
After 2 years but less than 3 years	**79,160**	84,554
After 3 years	**46,313**	38,943
	8,589,479	7,746,787

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB349 million as at 30 June 2009 (31 December 2008: RMB254 million). The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

(Expressed in Renminbi)

19 Share capital

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Registered, issued and fully paid:		
3,778,831,800 domestic state-owned ordinary shares of RMB1.00 each	3,778,831	3,778,831
1,992,850,200 H shares of RMB1.00 each	1,992,851	1,992,851
	5,771,682	5,771,682

	For the six months ended 30 June 2009 Thousand shares	For the year ended 31 December 2008 Thousand shares
At 1 January	5,771,682	5,444,986
Conversion of domestic state-owned ordinary shares into H shares	—	(32,670)
Issue of H shares	—	359,366
At 30 June/31 December	5,771,682	5,771,682

On 9 April 2008, the Company completed the placing of an aggregate of 359,365,600 new overseas-listed foreign-invested shares at a price of HK$5.25 per share (the "Placing Shares"). The Placing Shares comprise (1) 326,696,000 new H shares issued by the Company in connection with the placing, and (2) 32,669,600 H shares issued by the Company upon the conversion of the same number of the existing domestic legal person shares by the National Council for Social Security Fund of the PRC. The net proceeds from the placing, after deducting share issue expenses of RMB45,309 thousand, amounted to RMB1,496,560 thousand, of which RMB326,696 thousand and RMB1,169,864 thousand were credited to the Company's paid up capital and share premium reserve respectively.

(Expressed in Renminbi)

20 Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2009, the Group has capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Authorised and contracted for	162,609	163,397
Authorised but not contracted for	133,780	189,877

(b) Operating lease commitments

As at 30 June 2009, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Within 1 year	138,597	98,362
After 1 year but within 5 years	125,124	112,878
After 5 years	6,552	5,998
	270,273	217,238

The Group leases a number of properties under operating leases. The leases typically run for a period of one year to six years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(c) Contingent liabilities

As at 30 June 2009, the Group had no material contingent liabilities and no financial guarantees issued.

(Expressed in Renminbi)

21 Related parties

The Group is part of a large group of companies under CTC Group and has significant transactions and relationships with members of CTC Group. Apart from the transactions and balances disclosed in the interim financial report set out above, there are the following related party transactions:

(a) Transactions with CTC Group

Because of the relationships between the Group, CTC and members of the CTC Group, it is possible that the terms of those transactions are not the same as those that would result from transactions among unrelated parties.

The principal transactions with CTC Group which were carried out in the ordinary course of business are as follows:

	For the six months ended 30 June	
	2009	2008
	RMB'000	RMB'000 (restated – note 1(b))
Income from related parties:		
Engineering related services (note (i))	**4,152,205**	2,529,440
IT application services (note (ii))	**369,910**	174,049
Provision of ancillary telecommunications services (note (iii))	**2,463,669**	2,260,059
Provision of operation support services (note (iv))	**732,712**	734,311
Property leasing (note (v))	**23,673**	32,095
Management fee income (note(vi))	**96,041**	89,832
Expenses paid/payable to related parties:		
Property leasing charges (note (vii))	**52,389**	45,384
IT application service charges (note (viii))	**26,895**	84,736
Operation support service charges (note (ix))	**416,232**	187,849
Interest paid/payable (note (x))	**24,976**	63,746

(Expressed in Renminbi)

21 Related parties (continued)

(a) Transactions with CTC Group (continued)

Notes:

(i) The amount represents the engineering related services, such as design, construction and project management for telecommunications infrastructure project provided to CTC Group.

(ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group.

(iii) The amount represents ancillary telecommunications services such as maintenance of network facilities including optical ducts and cables, exchange buildings and base stations; operation of distribution channels; fixed line and wireless value-added service; internet contents and information services provided to CTC Group.

(iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to CTC Group.

(v) The amount represents rental income in respect of premises leased to CTC Group.

(vi) The amount represents management fee income in respect of Centralised Services provided to CTC Group.

(vii) The amount represents rentals from operating leases in respect of business premises paid and payable to CTC Group.

(viii) The amount represents basic telecommunications service, value-added service and information application service charged by CTC Group.

(ix) The amount represents the charge paid and payable to CTC Group for logistics, labour resources, cultural, educational, hygiene and other supporting services.

(x) Interest paid/payable represents the interest paid or payable to CTC Group in respect of the loans from CTC and fellow subsidiaries.

(Expressed in Renminbi)

21 Related parties (continued)

(a) Transactions with CTC Group (continued)

Amounts due from/to CTC Group included in respective balances are summarised as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Accounts and bills receivable, net	**5,882,277**	5,331,861
Prepayments and other current assets	**378,708**	502,996
Total amounts due from CTC Group	**6,260,985**	5,834,857
Interest-bearing borrowings	**866,280**	1,645,780
Accounts and bills payable	**349,364**	253,724
Receipts in advance for contract work	**45,827**	41,732
Accrued expenses and other payables	**1,909,114**	1,503,672
Total amounts due to CTC Group	**3,170,585**	3,444,908

As at 30 June 2009 and 31 December 2008, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from CTC Group.

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned.

Notes to the Unaudited Interim Financial Report
(continued)

(Expressed in Renminbi)

21 Related parties (continued)

(b) Transactions with other state-controlled entities in the PRC

The Group is a state-controlled entity and operates in an economic regime currently predominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-controlled entities"). Apart from transactions mentioned above, the Group conducts a majority of its business activities with state-controlled entities in the ordinary course of business. These transactions are carried out at terms similar to those that would be entered into with non-state-controlled entities. Transactions with other state-controlled entities in the PRC include but not limited to the following:

— sales and purchase of goods, properties and other assets;

— rendering and receiving services;

— depositing and borrowing money; and

— use of public utilities.

The Group prices its services and products based on guideline ceiling rates prescribed by relevant government agencies, where applicable, or based on the commercial negotiations. The Group has also established its procurement policies and approval processes for purchase of products and services, which do not depend on whether the counter parties are state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the entity's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding or the potential effect of the related party relationships on the consolidated financial statements, the directors are of the opinion that the following amounts due from/to state-controlled entities in the PRC require disclosure.

(Expressed in Renminbi)

21 Related parties (continued)

(b) Transactions with other state-controlled entities in the PRC (continued)

Cash deposited and interest-bearing borrowings with the state-controlled banks in the PRC and the interest income and interest expenses are as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Cash and cash equivalents	6,553,283	7,982,351
Interest-bearing borrowings	850,000	207,706

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Interest income	30,226	44,049
Interest expenses	11,059	13,913

(c) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Salaries and other emoluments	1,273	1,249
Retirement benefits	564	581
Bonus	2,305	2,432
	4,142	4,262

Total remuneration is included in "Staff costs" in note 9.

21 Related parties (continued)

(d) Contributions to defined contribution retirement plans

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 30 June 2009 and 31 December 2008, there was no material outstanding contribution to post-employment benefit plans.

(e) Transactions with ten largest state-controlled customers and suppliers

The directors consider that the transactions with state-controlled entities which require disclosure in the interim financial report have been set out above. The following are the additional disclosure in respect of transactions entered into by the Group with its ten largest state-controlled customers and suppliers:

Transactions with the Group's ten largest customers, which are state-controlled entities, amounting to approximately RMB13,044 million for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB8,669 million).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB920 million for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB249 million).

22 Comparative figures

As a result of the application of IAS 1 (revised 2007), *Presentation of financial statements*, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3. In addition, as stated in note 1(b), as a result of the acquisition of Target Interests, comparative figures have been restated.